

University of California
College of Agriculture
Agricultural Experiment Station
Berkeley, California

AN ANALYSIS OF THE OPERATIONS
OF THE ESCONDIDO VALLEY POULTRY ASSOCIATION

by

E. A. Stokdyk

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OF THE ESCONDIDO VALLEY POULTRY ASSOCIATION

E. A. Stokdyk ✓✓

FOREWORD

The purpose of this study was to determine what changes, if any, in the cooperative purchasing of feeds and the cooperative handling of poultry products in the Escondido Valley might result in higher net incomes to members of cooperatives in this area.

The study was conducted at the request of the Board of Directors of the Escondido Valley Poultry Association to assist them in making a decision concerning action they might take toward (1) attempting to strengthen their own organization, (2) merging their association with the Poultrymen's Cooperative Association of Southern California with headquarters at Los Angeles, or (3) merging their association with the San Diego Cooperative Poultry Association at San Diego.

Data were obtained from the records of the Escondido Valley Poultry Association to determine the trend of the costs and profitableness of operation and the trend of the financial status. These were compared with similar data obtained from the records of other cooperative poultry and feed purchasing associations. Data were also obtained to determine the competitive conditions in the handling of poultry feeds and poultry products in the Escondido Valley. In addition, data were obtained on the history of the Escondido Association which would aid in an understanding of the problems and practices of the organization.

HISTORY

In April, 1921, a group of poultrymen in the Escondido Valley undertook to purchase poultry feeds cooperatively by ordering their requirements in carload lots and accepting delivery from the car door. In July, 1921, this group incorporated to form the Escondido Valley Poultry Association. In September of the same year the Association rented warehouse space where poultry feeds were stored and handled. In 1924 a building was purchased from the Hayward Lumber Company which was formerly owned by the Escondido Hay and Grain Company. Since that time operations have been conducted at this location.

The operations have been principally in poultry feeds (mixed feeds and grains), although since 1927 a considerable volume of dairy feeds and hay have been handled, and in 1932 approximately 30 per cent of the volume of business was in dairy feeds.

✓ Associate Professor of Agricultural Economics, Associate Agricultural Economist in the Experiment Station, and Associate Agricultural Economist on the Giannini Foundation.

✓ The author is indebted to Mr. Jean C. Miller, Assistant Farm Advisor of San Diego County for assistance in obtaining the data of this study.

Vol. 10, Pt. 1, 1910

ARTICLE

THE JOURNAL OF THE ROYAL ANTHROPOLOGICAL INSTITUTE, Vol. 10, Pt. 1, 1910, contains the following articles:

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Table

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From 1921 to 1927 the mixed poultry feeds handled by the Association were those ground and mixed by agencies located in Los Angeles, including the Poultrymen's Cooperative Milling Association (now the Poultrymen's Cooperative Association of Southern California), the Globe Milling Company, the Taylor Milling Company, and the Sperry Flour Company. In the handling of mixed poultry feeds, the Association acted, then, as a retailer; that is, it purchased these feeds in fairly large quantities and sold them in relatively small quantities to individual poultrymen. In 1927, a grinder and mixer were installed and since that time an increasing proportion of the mixed feeds handled by the Association has been ground and mixed in their own plant.

The number of members, the dollar volume of business, and the tonnage handled by the Escondido Association since 1926 are shown in table 1. It will be noted from table 1 that the peak in membership was reached in 1929, the peak in tonnage in 1927, and the peak in dollar volume in 1928. The decline in membership and tonnage from the peak has been influenced by a decrease in the number of poultry and poultrymen in the Escondido area. Exact data are lacking which show the decrease in this area; however, the census for San Diego County as a whole showed 640,260 chickens in 1924 and 577,621 in 1930. Those who are familiar with the county estimate that the decrease in the Escondido area has been approximately proportional to the decrease in the entire county. The decline in membership has been influenced by another factor, and that is the policy of the Association to require each person to renew his membership each year by paying a fee of \$1.00. Thus, only those who are utilizing the facilities of the organization are classed as members. However, in 1932 approximately 30 per cent of the business of the Association was with nonmembers.

The dollar volume of business has been influenced to some extent by the decline in the number of members and the decline in tonnage; yet the most important influence was the decline in the general price level. See figure 1.

Relationships With Other Cooperative Associations.-- During the entire history of the Escondido Association a considerable portion of its business has been in the mixed poultry feeds prepared by the Poultrymen's Cooperative Association of Southern California and its predecessor. In fact, until early 1933, the mixed poultry feeds prepared by the latter organization were the principal mixed poultry feed handled by the Escondido Association. See table 2. These two organizations have been closely associated ever since organization. The president and manager of the Escondido Association have been members of the Board of Directors of the Poultrymen's Cooperative Association and its predecessor, the Poultrymen's Cooperative Milling Association, for a number of years.

In addition to the mixed feeds handled by the Escondido Association which are prepared by the Los Angeles Association, a considerable portion of the grains handled by the former association is purchased through the latter. Some grains are also purchased through the San Diego Cooperative Poultry Association at San Diego.

Another relationship between the Escondido Association and the Los Angeles Association which is of significance is that 93 persons in the Escondido territory are members of the latter organization, and these receive patronage dividends on the mixed feeds purchased from the Escondido Association which are prepared by the Los Angeles Association. In contrast to the relationship between

TABLE 1
Number of Members and Volume of Business
Escondido Valley Poultry Association
1926-1932

Year	Number of members	Volume of business	
		dollars	tons of feed
1926	256	179,786	3,536
1927	300	227,429	4,906
1928	311	263,608	4,100
1929	341	238,942	4,120
1930	286	222,069	4,660
1931	265	183,229	4,200
1932	262	148,549	4,100

Source of data: Records of the Escondido Valley Poultry
Association.

TABLE 2

Mixed Feeds Handled by the Escondido Valley Poultry Association

Manufacturer	Monthly average 1932		April, 1933	
	<u>sacks</u>	<u>per cent</u>	<u>sacks</u>	<u>per cent</u>
Escondido Valley Poultry Association	1,062	30.2	1,731	70.5
Poultrymen's Cooperative Association	1,257	35.7	482	19.6
Taylor Milling Company	703	20.0	200	8.1
Sperry Flour Company	264	7.5	25	1.0
Globe Milling Company	156	4.4	17	0.6
All others	76	2.2	0	0.0
Total	3,518	100.0	2,455	100.0

Source of data: Records of the Escondido Valley Poultry Association.

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DOLLAR VOLUME IN FEEDS AND SUPPLIES AND INDEX OF WHOLESALE PRICES

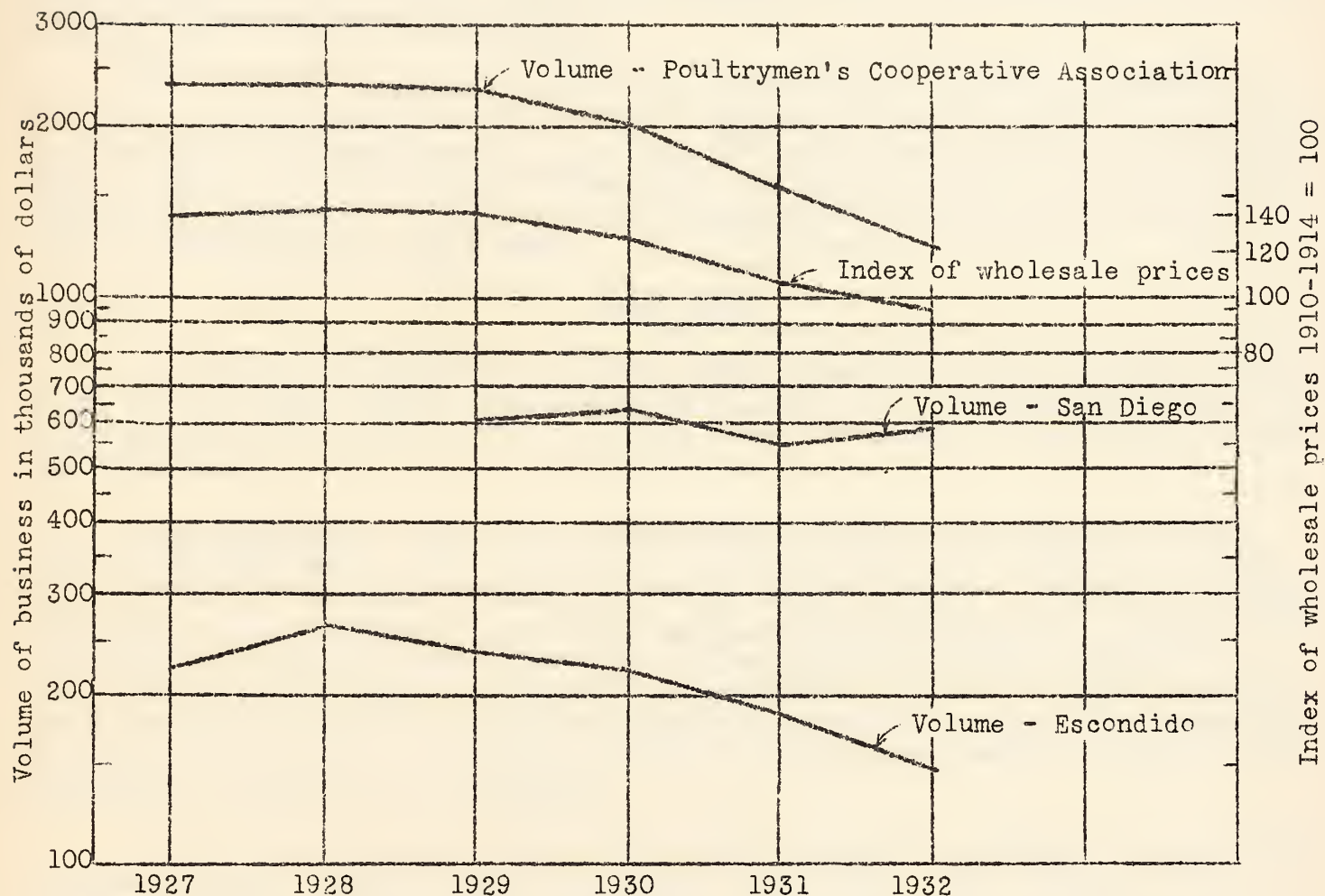
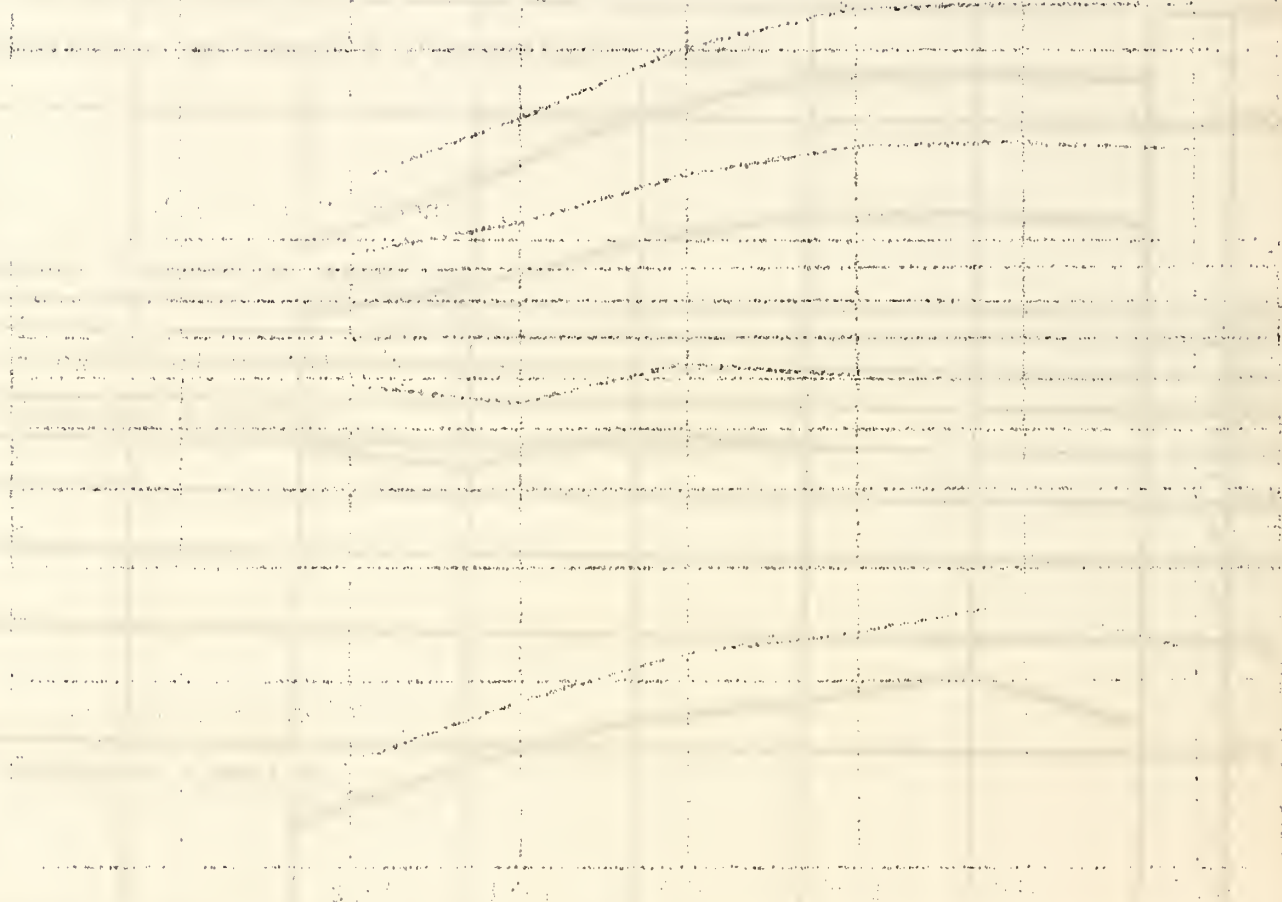


Fig. 1.-- The decline in the dollar volume of business of the Escondido Valley Poultry Association and the Poultrymen's Cooperative Association since 1929 has followed closely the decline in the wholesale prices of all commodities. The volume of the San Diego Cooperative Association has not shown the same decrease because nearly a 50 per cent increase in tonnage was handled.

REPORT ON THE
RESULTS OF THE

RESEARCH ON THE



The results of the research indicate that the data series show a consistent upward trend over the observed period. The top series starts at a value of approximately 10 and increases to about 45, while the bottom series starts at approximately 5 and increases to about 35. This suggests a positive correlation between the variables being measured.

these two organizations and the relationship between the Escondido Association and the San Diego Association, the former organization does not handle the mixed feeds prepared by the latter, although 25 persons in the Escondido territory are members of the San Diego Association.

The Escondido Association does not handle poultry products. However, 67 persons in the Escondido territory who are members of the Poultrymen's Cooperative Association of Los Angeles sell their eggs (May, 1933) through it. At the same time, a member of the Escondido Association operates an egg receiving and grading station in a section of the plant owned by the Escondido Association through which some members sell their eggs.

OPERATIONS

A summary and analysis of the operating statements of the Escondido Association for the years 1926 to 1932 are shown in table 3. The operating ratios presented in the lower portion of the table give an indication of operating policies and efficiency.

Gross Profits.-- The first ratio shown in table 3, the ratio of gross profits to gross sales, shows the gross operating margin; for example, in 1932, for every dollar of sales there was 6.5 cents of gross profit. Stated in another way, feeds and supplies which cost 93.5 cents were sold for \$1.00. This ratio is of significance because unless there is a gross margin of profit there are no funds available with which to pay operating expenses. It is of further significance because competitive conditions frequently narrow the gross operating margin to such an extent that a particular business organization, whether cooperative or proprietary, cannot pay its expenses.

It will be noted from table 3 that there has been a tendency for the ratio of gross profits to gross sales to increase since 1928. This tendency is due to the fact that the Escondido Association has, since 1928, mixed and ground in their own plant an increasing proportion of the mixed feeds they handled. It is becoming apparent that the gross profit or gross margin in selling feeds mixed and ground by others is less than the gross profit in selling feeds mixed and ground in one's own plant. This situation was brought out in a previous study of two cooperative poultry associations in the southern San Joaquin Valley.³ The Tulare Cooperative Poultry Association, which handled feed mixed and ground by others, had a gross margin of 4.8 per cent in 1930, while the Porterville Poultry Association, which mixed and ground its own feeds, obtained a gross margin of 9.5 per cent.⁴

An important factor influencing the gross margin, in addition to the competitive situation, is the policy of the management of a cooperative purchasing association toward attempting to obtain a high, or a low gross margin. The

³/Stokdyk, E. A. Cooperative marketing of poultry products in the southern San Joaquin Valley. California Agr. Exp. Sta. p. 10-13. 1931. (Mimeo.)

⁴/The Tulare Cooperative Poultry Association has ceased operations and is now (May, 1933) in the hands of a receiver.

TABLE 3
Summary of the Operating Statements of the
Escondido Valley Poultry Association
1926-1932

	1926	1927	1928	1929	1930	1931	1932
	<u>dollars</u>	<u>dollars</u>	<u>dollars</u>	<u>dollars</u>	<u>dollars</u>	<u>dollars</u>	<u>dollars</u>
Gross sales	179,786	227,429	263,608	238,942	222,068	183,228	148,549
Gross profit*	7,234	8,556	10,068	11,662	14,059	11,100	9,647
Total expense	3,698	5,283	4,267	6,193	7,539	4,728	4,302
Net profits	3,535	3,273	5,801	5,469	6,520	6,372	5,344
	<u>per cent</u>	<u>per cent</u>	<u>per cent</u>	<u>per cent</u>	<u>per cent</u>	<u>per cent</u>	<u>per cent</u>
Ratio of gross profits to gross sales	4.0	3.8	3.8	5.9	6.3	6.1	6.5
Ratio of total expense to gross profits	51.1	61.7	42.3	53.1	53.6	42.5	44.6
Ratio of net profits to gross sales	2.0	1.4	2.2	2.3	2.9	3.5	3.6

* Gross profit is the difference between gross selling prices and the cost of goods sold. Milling costs are included in cost of goods sold.

Source of data: Records of the Escondido Valley Poultry Association.

management may adopt a policy of trying to obtain a high gross margin and return as patronage dividends any net profits that may be made after operating expenses have been paid, or it may adopt a policy of selling products to members at the time of purchase at as low a price as possible, ^{thus} keeping the gross margin small and returning no patronage dividends. There are certain advantages in both policies. The policy of attempting to obtain a high gross margin has in its favor that the organization is more likely to have sufficient funds to cover its operating expenses. Another advantage is that such a policy is less likely to lead to price wars with competitors, while a third advantage is that at the end of the year the organization will probably have patronage dividends to distribute to its members. The policy of attempting to obtain a low gross margin has in its favor that low prices to producers at the time of purchase are likely to result in an increased volume of business which will reduce unit handling costs.^{5/} A further advantage is that operating expenditures are likely to be watched more carefully than if large gross margins are obtained.

The Escondido Association's policy has been to operate on a low gross margin. Their policy has been to operate on a gross margin large enough only to pay operating expenses, accumulate a small reserve, and pay a patronage dividend of 2 per cent on the dollar volume of members' purchases.^{6/} In the writer's opinion, consideration may well be given to attempting to increase the gross margin somewhat at the present time because, as is shown below (pages 17 to 22), the organization needs additional capital, and because the organization is grinding and mixing an increasing proportion of the mixed feeds that it handles, which entails some additional risk of price fluctuations.^{7/}

The foregoing conclusion is supported by data obtained from other cooperative feed purchasing associations in California, each of which grind and mix the feeds they handle. Column 1 of table 4 shows the gross operating margins of seven organizations. The underscored figure represents the Escondido Association. Here it will be seen that the gross margin of the Escondido Association is the lowest of all. It will also be noted that the gross margin of three associations is approximately 13 per cent. Two of the three associations are firmly established and have operated successfully for a number of years.

Another factor influencing the gross margin is the skill and judgment with which purchases are made. A manager of a cooperative feed purchasing association must be familiar and keep in touch with and be able to judge the trend of raw materials markets, particularly the grain markets.

^{5/} Of the several cooperative feed purchasing associations which the writer has studied, none are operating to full capacity or at the point of lowest unit costs.

^{6/} The 2 per cent patronage dividend is issued to members as purchase fund certificates. These constitute the capital of the organization. These certificates revolve or rotate when, in the discretion of the Board of Directors, the organization has sufficient capital to conduct its operations. Interest at the rate of 6 per cent per annum has been paid on the certificates.

^{7/} Data available at the time of publication of this study show the ratio of gross profits to gross sales for the first five months of 1933 to be 12.3 per cent.

It is probable that in the purchase of raw materials the Escondido Association could make some savings for its members by pooling its purchases with other cooperative feed purchasing associations or by buying more of its raw materials through the other associations. . Either of such procedures would be likely to strengthen the bargaining position of the Escondido Association, as well as the association through or with which it makes its purchases.^{8/}

Ratio of Expense to Gross Profits.-- The lower portion of table 3 also shows the ratio of total expense to gross profits for the Escondido Association from 1926 to 1932. This ratio gives an indication of the economy of operations. It shows the relation between the amount of money obtained as gross profits from operations and the amount of money spent to conduct operations. In 1932, for example, out of every dollar of gross profits 44.6 cents were used to pay operating expenses, leaving 55.4 cents for net profits. It will be noted from table 3 that the ratio of expense to gross profits has fluctuated from approximately 42 to 62 per cent. The fluctuations are of course influenced by two factors, namely, the amount of gross profits and the aggregate of expenses. The factors influencing the amount of gross profits were discussed above. The factors influencing annual expenses include the rates paid for management, labor, supplies and services, the economy with which these are utilized, and the accounting policy. The influence of these factors, except perhaps that of the accounting policy, is obvious. The latter factor influences annual expenses as follows: Expenditures for machinery, equipment, and major repairs may be charged to the current year's operations or amortized over a period of years. If charged to the current year's operations, there is likely to be considerable fluctuation from year to year in the annual expense of operation, while if they are amortized over a period of years, fluctuations in annual expenses are likely to be small. The general policy of the Escondido Association has been to charge most expenditures for equipment and repairs to the current year's operations. This accounts for the rise in total expenses in 1927 and 1930.

The ratio of total expenses to gross profits for the Escondido Association has been small. This is an indicator of economical operations. It indicates that expenditures have been watched carefully. It is particularly significant that during 1931 and 1932 the ratio was small because with the decline in the general price level, the dollar volume of business declined and gross profits declined. Every business has certain fixed expenses which it must meet, hence it must endeavor to cut the variable expenses if total expenses are to be kept below gross profits in periods of falling prices and declining volume of business. The fact that the ratio of total expenses to gross profits was low in 1931 and 1932 shows that expenses were decreased and that operations have been conducted economically.

The foregoing situation is illustrated further in column 2 of table 4 where the ratio of expense to gross profits for seven cooperative feed purchasing associations for the year 1932 are shown. The underscored figure, the ratio of

^{8/} Since the time the data were obtained for this study arrangements have been made whereby the Escondido Association will purchase most of its raw materials through another cooperative.

TABLE 4

Operating Ratios of Seven Cooperative Feed and Supply
Purchasing Associations in California, 1932

Ratio of gross profits to gross sales	Ratio of expense to gross profits	Ratio of net profits to gross sales
<u>1</u> per cent	<u>2</u> per cent	<u>3</u> per cent
17.6	<u>44.6</u>	7.0
15.2	55.9	6.1
13.8	56.5	5.8
13.5	57.5	5.4
13.1	58.8	<u>3.6</u>
9.3	88.2	2.1
<u>6.5</u>	97.6	0.2

Source of data: Calculated from the operating statements of the Escondido Valley Poultry Association; the San Diego Cooperative Poultry Association; the Poultrymen's Cooperative Association of Southern California; the Porterville Poultry Association; the Fontana Producers' Egg and Supply Company; and the Hayward Poultry Producers' Association, Inc. Underscored figures represent the Escondido Valley Poultry Association.

No.	Name	Age
1	John Smith	25
2	James Brown	30
3	William Jones	28
4	Robert Taylor	35
5	Thomas White	22
6	Charles Black	32
7	David Green	27
8	Richard King	38
9	Henry Hill	24
10	Samuel Adams	33
11	Benjamin Franklin	29
12	George Washington	31
13	Thomas Jefferson	26
14	James Madison	34
15	John Jay	23
16	Samuel Johnson	36
17	William Lloyd	21
18	Robert Livingston	37
19	Charles Lee	25
20	David Mervin	30
21	Richard Wright	28
22	Henry Adams	35
23	Samuel Taylor	22
24	Benjamin Franklin	32
25	George Washington	27
26	Thomas Jefferson	38
27	James Madison	24
28	John Jay	33
29	Samuel Johnson	29
30	William Lloyd	31
31	Robert Livingston	26
32	Charles Lee	34
33	David Mervin	23
34	Richard Wright	36
35	Henry Adams	21
36	Samuel Taylor	37
37	Benjamin Franklin	25
38	George Washington	30
39	Thomas Jefferson	28
40	James Madison	35
41	John Jay	22
42	Samuel Johnson	38
43	William Lloyd	24
44	Robert Livingston	33
45	Charles Lee	29
46	David Mervin	31
47	Richard Wright	26
48	Henry Adams	34
49	Samuel Taylor	23
50	Benjamin Franklin	36
51	George Washington	21
52	Thomas Jefferson	37
53	James Madison	25
54	John Jay	30
55	Samuel Johnson	28
56	William Lloyd	35
57	Robert Livingston	22
58	Charles Lee	38
59	David Mervin	24
60	Richard Wright	33
61	Henry Adams	29
62	Samuel Taylor	31
63	Benjamin Franklin	26
64	George Washington	34
65	Thomas Jefferson	23
66	James Madison	36
67	John Jay	21
68	Samuel Johnson	37
69	William Lloyd	25
70	Robert Livingston	30
71	Charles Lee	28
72	David Mervin	35
73	Richard Wright	22
74	Henry Adams	38
75	Samuel Taylor	24
76	Benjamin Franklin	33
77	George Washington	29
78	Thomas Jefferson	31
79	James Madison	26
80	John Jay	34
81	Samuel Johnson	23
82	William Lloyd	36
83	Robert Livingston	21
84	Charles Lee	37
85	David Mervin	25
86	Richard Wright	30
87	Henry Adams	28
88	Samuel Taylor	35
89	Benjamin Franklin	22
90	George Washington	38
91	Thomas Jefferson	24
92	James Madison	33
93	John Jay	29
94	Samuel Johnson	31
95	William Lloyd	26
96	Robert Livingston	34
97	Charles Lee	23
98	David Mervin	36
99	Richard Wright	21
100	Henry Adams	37

the Escondido Association, is the smallest of all organizations.^{9/}

Ratio of Net Profits to Gross Sales.-- The ratio of net profits to gross sales is one indicator of the degree of efficiency and success of a business organization, whether cooperative or proprietary. It is, however, only an indicator, particularly for a cooperative organization, because the members of a cooperative are primarily interested in obtaining their purchases for as low a price as possible (original price less patronage dividends) or selling their products for as high a price as possible (original price plus patronage dividends). The proprietary organization is interested primarily in the absolute amount of net profits for the owners of the organization, regardless of prices charged for products or prices paid for purchases.

Table 3 and figure 2 show that the ratio of net profits to gross sales for the Escondido Association has increased since 1927. Two factors have been primarily responsible for this increase. The gross margin has increased as the Association has ground and mixed an increasing proportion of the mixed feeds which it handles, and expenditures have been kept substantially below gross profits.

The comparison of the ratio of net profits to gross sales for seven organizations in table 4 shows the Escondido Association's ratio somewhat less than that of four organizations but more than that of two. Each of the other organizations grinds and mixes all of the mixed feeds which it handles. It is probable that the ratio of net profits to gross sales of the Escondido Association will increase as it grinds and mixes a larger proportion of the feeds it handles because expenses will not increase greatly as the volume of feeds mixed and ground increases.^{10/} It is also probable that an increased volume of business will increase the ratio of net profits to gross sales for the same reason.

COMPARATIVE FEED PRICES

It has been pointed out above that members of cooperative feed purchasing associations are primarily interested in obtaining feeds at as low prices as possible. During the period of this study an attempt was made to determine the comparative prices for feeds in the Escondido area. Such data as were obtainable are shown in table 5. Direct and exact comparisons are difficult to make because there is some variation in the content of mixed feeds which are presumably identical. Furthermore, list prices are frequently subject to discounts for quantity and cash, and in the case of the cooperative associations, net prices are influenced by the amount of patronage dividends. Table 5 reflects, however, the competitive situation in poultry feeds and grains which existed in the Escondido area at the time this study was made.^{11/}

^{9/}One reason for the low operating expenses of the Escondido Association is the comparatively low rates paid for management and labor.

^{10/}During the first five months of 1933 the ratio of net profits to gross sales was approximately 7 per cent.

^{11/}Inasmuch as there was considerable fluctuation in grain prices during the period of this study, the data obtained in table 4 were checked with comparable data for the period March 6 to 10. The relationships found between the comparative prices charged for feed by various agencies were found to be similar to those which existed on May 1, 1933.

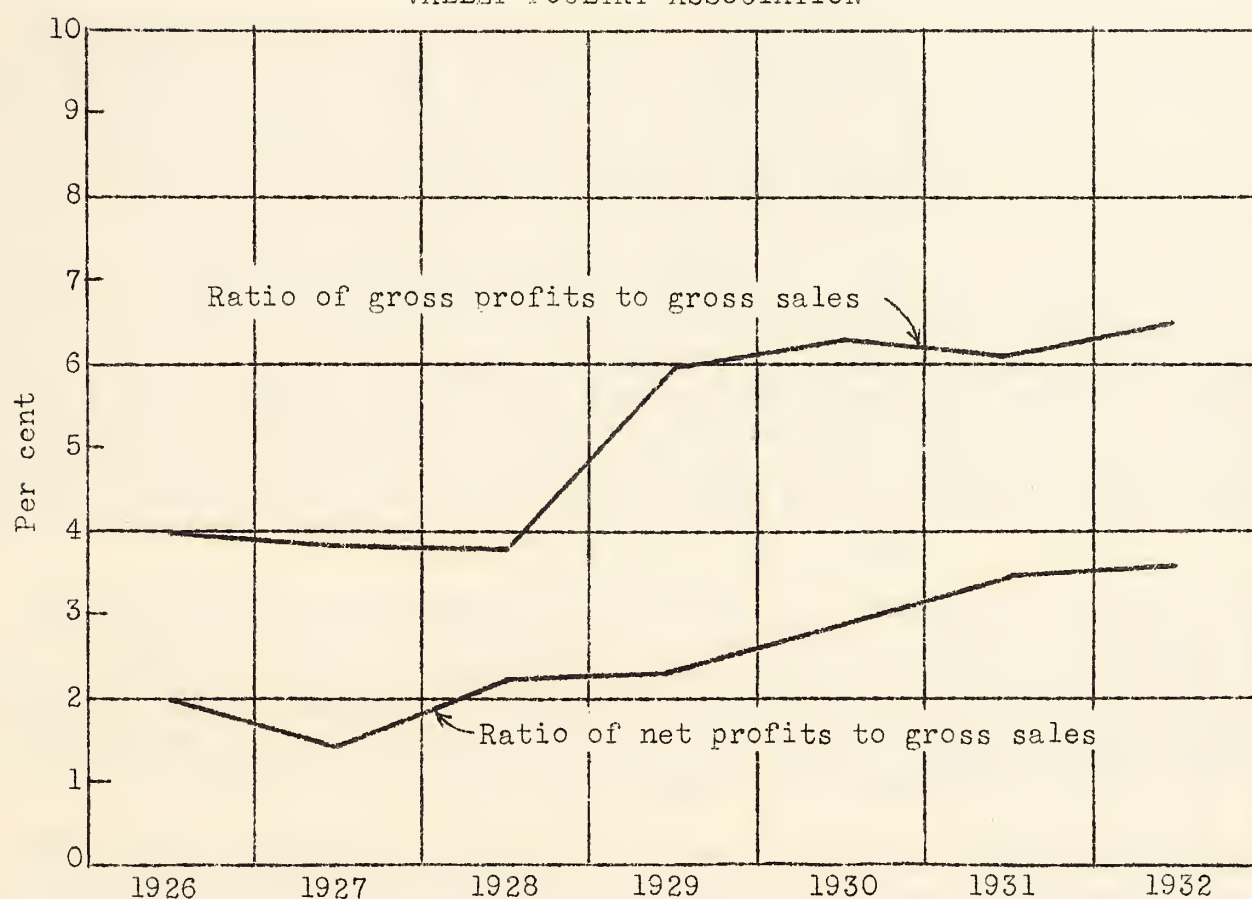
TWO OPERATING RATIOS OF THE ESCONDIDO
VALLEY POULTRY ASSOCIATION

Fig. 2.-- The ratio of gross profits to gross sales and the ratio of net profits to gross sales increased since 1927. These increases paralleled an increase in the proportion of mixed feeds ground and mixed in the Escondido plant.

Table 5 shows that there was considerable variation in prices between the high and the low price for each feed. In addition, table 5 shows that proprietary brands were in nearly every case the highest in price.

The point of most significance to the poultrymen in the Escondido area is that the prices for the brands of mixed feed and the grains handled by the Escondido Association were next to the lowest quoted by any agency, and if allowance is made for delivery costs¹² between San Diego and Escondido that, with one exception (cracked corn), Escondido's prices were the lowest. One of the principal reasons for the fact that, delivery charges considered, the prices charged for feeds by the Escondido Association are as low as or lower than those of any agency operating in or near the Escondido area is because on numerous products which are used in mixed feeds the carlot railroad rate from points east of the Rocky Mountains is the same to all points in southern California. Thus the Escondido Association has a location advantage, because feeds ground and mixed at some other point must bear a transportation charge to the Escondido area. This location advantage amounts to approximately \$2.00 per ton, or 10 cents per hundred pounds, or slightly more than the net profit per ton made by any cooperative feed purchasing association whose records were analyzed in this study.

The unit costs of operations of the Escondido Association in 1932, if all costs are charged to feeds (excluding hay and supplies), amounted to approximately \$1.05 per ton or 5.0 cents per hundred. Net profits per ton, if all profits are attributed to feeds, amounted to nearly \$1.30 per ton or 6.5 cents per hundred.¹³ Thus, the unit costs per ton and the net profits per ton together were slightly more than the \$2.00 per ton location advantage of the Escondido Association.

The close relationship between the prices for feed of the Escondido and San Diego associations centers attention on one of the principal problems of the Escondido Association, namely, its competitive relations with the San Diego Association in the sale of feeds to members. Prices of the San Diego Association for feeds at the plant of the San Diego Association are slightly lower than prices for feeds at the plant of the Escondido Association. Poultrymen in the Escondido area who may have reason to go to San Diego for business or pleasure and who have the necessary hauling equipment may gain some advantage by buying their feeds from the San Diego Association. On the other hand, poultrymen in the Escondido area who would have to make a special trip to San Diego to procure their poultry feeds and who would consider the expense incurred as chargeable entirely to the poultry feeds would probably find it to their advantage to make their purchases from the Escondido Association. Aside from this situation, there is always the human element which enters into the problem. Some purchasers for personal reasons prefer to deal with one organization rather than another even though it may not be to their pecuniary advantage to do so.

The close relationship of prices for feeds between the two organizations brings up another problem, namely, their policies in competitive territory. Some areas in San Diego County might be served as well by one organization as another. Yet, competition between the two organizations for the business in these areas would be likely to involve duplication of effort, particularly in the delivery of feeds. Such competition might result in a bitter struggle if both organizations

¹² Delivery charges between San Diego and Escondido have been reduced materially in the past five years. They have declined from approximately \$5.00 per ton to around \$2.00 per ton. The charge is not uniform, however, because trucking rates are subject to bargain.

¹³ Total expenses were \$4,302.00 and the volume of feed handled was 4,100 tons. Net profits were \$5,344.00. See tables 1 and 3.

TABLE 5

Comparative Feed Prices* in the Escondido Area, May 1, 1933

Brand or dealer	Laying mash	Combination mash	Growing mash	Chick mash	Control mash	Wheat	Barley	Cracked corn
Escondido's	<u>dollars</u> 1.372	<u>dollars</u> 1.470	<u>dollars</u> 1.519	<u>dollars</u> --	<u>dollars</u> --	<u>dollars</u> 1.323	<u>dollars</u> 1.078	<u>dollars</u> 1.225
San Diego's at San Diego	1.360	1.400	1.500	1.690	2.170	1.270	.99	1.11
San Diego's at Escondido†	1.460	1.500	1.600	1.790	2.270	1.370	1.09	1.21
Poultrymen's Cooperative Association at Los Angeles	1.600	1.550	1.800	2.150	2.950	1.550	1.15	1.20
Poultrymen's Cooperative Association at Escondido	1.567	1.567	1.813	2.156	2.499	--	--	--
Proprietary brands	1.75-1.95	2.00	2.00-2.15	2.15-2.75	3.20	1.45	1.25	1.35

* Prices are in dollars per hundredweight on a cash basis in ton lots at the plant of the selling agency. Allowance has been made for probable patronage dividends and other discounts given members of the cooperatives.

† The probable price of San Diego's feeds delivered in Escondido has been estimated by adding 10 cents per hundredweight to the price at the plant in San Diego.

Source of data: From the records of the Escondido Valley Poultry Association, the San Diego Cooperative Poultry Association, the Poultrymen's Cooperative Association, and price lists furnished by proprietary feed selling agencies.

went after the business of a particular area, especially if they decided to attempt to capture the business on the basis of the extra costs involved in handling the business of an outlying area. This problem is one which is present in numerous areas where two or more cooperatives operate in proximity. In most cases the policy of the cooperatives has been to refrain from aggressiveness in such areas, letting the producers come to their own decision as to which organization they will patronize.

Another problem which arises because of the close relationship between prices of the two organizations is the problem of advancing or lowering prices for poultry feeds as the raw materials markets advance or decline. One organization may have purchased raw materials in large quantities before an advance or decline in prices, while another may have only small quantities on hand. For short periods, one organization may be in a position to undersell the other for this reason, or stated in another way, one organization may be in a position to give its members feeds at a lower price at the time of purchase than the other. This problem is a part of the problem of the gross margin which was discussed in the section on operations. There it was shown that the Escondido Association's gross margin was narrow, and that it would be advisable to attempt to increase the gross margin. Here it is apparent that the extent to which the gross margin can be increased will depend somewhat on the policies of the San Diego Association as to the gross margin it attempts to obtain. The reason for this statement is that neither the San Diego nor the Escondido Association operates under contract with members, and it is probable that if the prices which one organization charges for feeds at the time of purchase are much higher than those of the other, the one will lose and the other gain volume of business.

The data in table 5 show that the prices charged for feeds by proprietary agencies are considerably higher than those charged by the Association. Proprietary dealers in the area are selling mixed feeds ground and mixed by other agencies, principally agencies located in or near Los Angeles. They sell some of the brands of mixed feed which have been handled by the Escondido Association. The higher prices charged by the proprietary agencies probably account for the fact that the Association handles approximately 70 per cent of the poultry feeds used in the Escondido area.

A question may be raised as to why some poultrymen are willing to pay higher prices for mixed feeds than those charged by the Association. Several possible reasons may be mentioned. Proprietary agencies usually employ aggressive salesmen who claim superior qualities for the feeds they sell. Frequently poultrymen experience difficulty with disease epidemics, then change feeds about the time the disease has run its course, and conclude that the new feed was responsible for the cessation of the epidemic. Some poultrymen have exhausted their credit with cooperative feed selling agencies and turn to other agencies which will extend them credit. Again, some poultrymen for personal reasons may prefer to deal with or through a particular agency rather than another.

The point of significance, however, is that the Escondido Association is in a relatively strong position as far as competition from proprietary agencies is concerned. At the same time, as was pointed out above, it is in a favorable position within its own area to meet potential competition from the San Diego Cooperative Poultry Association.

COMPARATIVE EGG PRICES

As was noted in the section on the history of the Escondido Association, it does not handle poultry products but a number of poultrymen in the Escondido area who are members are also members of the Poultrymen's Cooperative Association with headquarters at Los Angeles and market their eggs through the latter organization. The Escondido Association hauls such poultrymen's eggs to Los Angeles on its trucks and hauls some feeds and supplies which it purchases through or from the Los Angeles Association on the return trip. It was also noted that some poultrymen market their eggs through the San Diego Cooperative Poultry Association.

Data are available which show the average prices received for eggs marketed through the Poultrymen's Cooperative Association and the San Diego Cooperative Poultry Association in 1932. However, exact data are not available which show the average prices received by poultrymen who marketed through other agencies. In 1932 the former organization paid a weighted average price (including patronage dividends) for all grades of eggs of 16.99 cents per dozen, 18.00 cents for extras, and 17.03 cents for mediums; while the latter organization paid 16.90 cents for all grades, 17.76 cents for extras, and 16.34 for mediums.¹⁴ This indicates that the former organization returned slightly higher prices to members than the latter.

The foregoing prices include the deductions which each organization makes for members' contribution to capital. The former association deducts one-half cent per dozen for this purpose, and the latter one cent per dozen, hence the average immediate paying price of the Poultrymen's Cooperative Association on all grades of eggs was 16.49 cents per dozen and that of the San Diego Association 15.90 cents. However, both associations operate on a revolving capital basis, hence the deductions are eventually returned to members.¹⁵

Eggs sold in the Escondido area to proprietary agencies are sold at a price based on the Los Angeles wholesale egg price quotations. During the period of this study (May, 1933), poultrymen were selling through such agencies at four cents less than the Los Angeles quotations. These eggs were sold to such dealers without candling, but according to size. At this same time, the two cooperative associations were making an initial price advance to members approximately two cents less than Los Angeles quotations on a candled and graded basis.

Some of the eggs handled by proprietary agencies are sold locally, some shipped to Los Angeles, and some to San Diego, depending upon prevailing prices in these areas and upon the trade connections established by the Escondido dealers. At times during the year, particularly during the summer months when production is seasonally low, most of the eggs handled by them are sold locally. During this period, local dealers frequently pay producers two or three cents per dozen less than Los Angeles quotations, instead of four cents less. During most of the year, however, more eggs are produced in this area than are consumed there.

The fact that some eggs are shipped to Los Angeles and some to San Diego by proprietary agencies operating in the Escondido area indicates that the production and consumption of eggs in San Diego County as a whole are closely in balance. However, there apparently is an excess above the county's requirements produced within the county, particularly during the period of the year when production is seasonally high. Some agencies store eggs during this period to sell

¹⁴ From these prices transportation charges must be deducted to calculate net prices to members. These charges usually vary directly with the distance members are located from the offices of the associations.

¹⁵ The Poultrymen's Cooperative Association has not started (1933) to revolve its capital, while the San Diego Association has.

during the period of low production. Yet, a few carloads are shipped from the county to eastern markets by the San Diego Cooperative Poultry Association. The general tendency is for eggs to move, at various times during the year, toward the areas where prices are highest.

The foregoing situation is of importance to the poultrymen in the Escondido area, and particularly to those who sell their eggs through the Poultrymen's Cooperative Association located at Los Angeles. It appears that the volume of eggs which they sell through this agency approximates the excess above San Diego County's requirements. This volume amounted to 368,102 dozens in 1932, or nearly 7 per cent of San Diego County's total production.¹⁶

The poultrymen selling this volume of eggs are justified in marketing their eggs wherever they can obtain the highest prices. However, their action in choosing the place they will market their eggs has an important influence on the egg price structure within the entire county. For example, they might decide to market this volume through the San Diego Cooperative Poultry Association. The Association would then be faced with the problem of attempting to sell this additional volume within the area or shipping it to Los Angeles. If the San Diego Association decided to sell the volume within the area, prices there would be likely to decline to a point where other agencies would purchase and ship eggs to points outside the area. On the other hand, if the Association decided to ship the eggs to Los Angeles, this action would be likely to amount to an additional handling of the eggs, because it is probable that the Association would market them through wholesale channels in Los Angeles. At times, however, the Association might market them to advantage in eastern points; yet the period of the year when this is feasible is relatively short.¹⁷ Again, the Association might store a part of this volume at certain periods of the year.

A consideration of the prices received by the poultrymen in the Escondido area who market through the Poultrymen's Cooperative Association, and the influence of their choice of markets on the egg price structure in San Diego County leads to the conclusion that the present movement of some of the eggs from the Escondido area to Los Angeles through the Poultrymen's Cooperative Association is to the advantage of the poultrymen who market in this way, and also to the advantage of poultrymen in the county as a whole.

FINANCIAL STATUS

An analysis of the financial status of the Escondido Valley Poultry Association for the period 1926 to 1932 is shown in table 6.

The upper portion shows the amounts under each heading as of December 31 of each year. These are listed as current assets, fixed assets, liabilities to

¹⁶ This estimate was based on data from the records of the Poultrymen's Cooperative Association and data from the 1930 Census, which indicated a production of 5,483,000 dozens in San Diego County.

¹⁷ See Tinley, J. M., and E. A. Stokdyk. Operations of the Poultry Producers of Southern California, Inc. California Agr. Exp. Sta. Bul. 516. p. 23. 1931.

TABLE 6

Trend in the Financial Status of the Escondido Valley Poultry Association

1926-1932

	Dec. 31 1926	Dec. 31 1927	Dec. 31 1928	Dec. 31 1929	Dec. 31 1930	Dec. 31 1931	Dec. 31 1932
Current assets	\$22,928	\$25,203	\$33,429	\$38,740	\$43,521	\$48,285	\$29,439
Fixed assets	14,122	28,107	30,337	28,373	29,165	18,816	18,667
Liabilities to creditors (includ- ing mortgages)	21,133	36,623	40,464	47,391	45,062	40,659	28,456
Capital	14,522	16,139	20,162	21,601	22,312	19,071	18,098
Net worth	14,928	17,748	21,771	23,722	28,792	24,176	21,081
Notes and accounts receivable	22,115	20,582	19,281	21,249	29,873	37,869	20,116
Ratio of current assets to liabil- ities	108.5	68.8	82.6	81.7	96.6	118.8	103.5
Ratio of net worth to capital	102.8	110.0	108.0	109.8	129.0	126.8	116.5
Ratio of fixed assets to net worth	94.6	158.4	139.3	119.6	101.3	77.8	88.5
Ratio of notes and accounts receiv- able to net worth	148.1	116.0	95.6	89.6	103.7	156.6	95.4

Source of data: Records of the Escondido Valley Poultry Association.

creditors, capital, net worth, and notes and accounts receivable.

The term "current assets" means those items which are either in the form of cash or can be turned into cash quickly. Fixed assets are the more permanent investments of the association, such as land, buildings, machinery, and equipment. Liabilities to creditors means bills payable to creditors of the organization, including mortgage holders as distinguished from liabilities of the organization to its members as owners of the organization. Capital is the money furnished by the owners of the association. Net worth is capital, surplus, and reserves for contingencies. Notes and accounts receivable are, as the term implies, those accounts and notes which are due the organization.

The absolute amounts under each item in table 6 give little indication of the trend of the financial status, hence, certain financial ratios shown in the lower portion of table 6 were calculated as a basis for an appraisal of the financial status.

Ratio of Current Assets to Liabilities to Creditors.-- The first ratio, that of current assets to liabilities, is considered one of the most important. It indicates whether or not the organization could pay its obligations to creditors quickly if it were forced to do so. There has been considerable fluctuation in this ratio from a low of 68.8 in 1927 to a high of 118.8 in 1931. The fluctuations are not as important, however, as the fact that this ratio has been extremely low during the entire period under consideration. There is no reliable criterion by which to judge what this ratio should be for a particular business. Most organizations like to have a ratio of 150 or more. That is, most organizations prefer to be in a position where they have available in cash or in items which they can turn into cash quickly approximately \$1.50 for every \$1.00 which is owed to creditors.

A ratio which is frequently calculated in an analysis of financial statements is that of the ratio of current assets to current liabilities instead of the ratio of current assets to total liabilities to creditors. Most organizations like to have this ratio between 200 and 300.

The low ratio of the Escondido Association is more apparent when it is compared with those of other cooperative poultry associations which handle poultry feeds. Column 1 of table 7 shows the Escondido Association's ratio to be the lowest of all. It is considerably below that of the second lowest, which was 269.0.¹⁸

The data in tables 6 and 7 show that it would be desirable for the Escondido Association to attempt to increase the ratio of current assets to liabilities to creditors. This can be done by increasing the capital of the organization.

Ratio of Net Worth to Capital.-- The ratio of net worth to capital shows the book value of the organization in comparison with the investment of its

¹⁸ Some of the ratios in column 1 of table 7 appear extremely high. This is due to the fact that the financial statements of some associations were drawn before patronage dividends were distributed to members.

TABLE 7
Financial Ratios of Seven Cooperative Poultry
Associations, December 31, 1932

Ratio of current assets to liabilities*	Ratio of net worth to capital	Ratio of fixed assets to net worth	Ratio of notes and accounts re- ceivable to net worth
<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>
509.6	222.4	37.0	23.6
466.5	145.3	37.7	25.4
394.5	129.5	41.5	25.7
346.7	128.3	43.6	31.6
270.2	<u>116.5</u>	45.7	31.6
269.0	113.7	52.0	37.2
<u>103.5</u>	104.6	<u>88.5</u>	<u>95.4</u>

* Liabilities include current and long-time obligations such as mortgages.

Sources of data:

Calculated from the financial statements of the Escondido Valley Poultry Association; the San Diego ^{Cooperative} Poultry Association; the Poultrymen's Cooperative Association of Southern California; the Poultry Producers of Central California; the Porterville Poultry Association; the Fontana Producers' Egg and Supply Company; and the Hayward Poultry Producers Association, Inc. Underscored figures represent the Escondido Valley Poultry Association.

owners. It also gives an idea of the reserves which the business holds. For example, at the end of 1932, the Escondido Association's business was worth approximately \$116.50 for every \$100.00 which members had invested.

It will be noted from table 6 that the ratio of net worth to capital has never been large. In other words, the organization has had small reserves. This is a common characteristic of cooperative associations, as will be seen from column 2 of table 7. In only one case was the ratio more than 150. Here again, there is no rule of thumb by which one can judge what may be a desirable ratio for a particular organization. In the writer's opinion, however, cooperative associations might well give consideration to maintaining this ratio at 125 or higher.¹⁹

Ratio of Fixed Assets to Net Worth.-- The ratio of fixed assets to net worth gives an idea of the proportion of the book value which is in fixed assets. It is the aim of most businesses to keep this ratio as low as possible. Table 6 shows that the Escondido Association's ratio has always been high, ranging from 77.8 to 158.4 per cent. It has, however, decreased considerably since 1927, standing at 88.5 per cent at the end of 1932.

Most organizations prefer not to have their fixed assets exceed 50 per cent of their net worth. Column 3 of table 7 shows that most cooperative poultry associations handling feeds had a ratio of fixed assets to net worth less than 50.

The Escondido Association can decrease this ratio by increasing its capital or increasing its surplus or both.

It has been pointed out several times that an increase in capital would be desirable to strengthen the financial position of the Escondido Association. If operations are conducted as economically in the future as they have been in the past and if net profits remain the same or increase, the organization can accomplish this objective with little difficulty. During the period 1929 to 1932 an amount of capital totaling \$12,264.51 was rotated. That is, capital contributions of this amount were returned to members. Had the organization retained this amount, it would have been in a stronger financial position. This situation was recognized during 1932, and at the annual meeting of the Association the members recommended to the management the policy of discontinuing the rotation of capital until such time as sufficient capital was available to put the organization in a relatively strong financial position. In the writer's opinion this is a sound policy. Other factors remaining the same, the addition of \$10,000 to capital would put the Association in such a position.

Ratio of Notes and Accounts Receivable to Net Worth.-- The ratio of notes and accounts receivable to net worth shows the proportion of the book value which has been extended as credit to purchasers. Table 6 shows that this ratio decreased markedly from 1931 to 1932, from 156.6 to 95.4 per cent.²⁰ However, this ratio is high. It is exceedingly high in comparison with the ratios shown in

¹⁹ During the first 5 months of 1933, approximately \$2,750.00 were added to surplus making the ratio of net worth to capital 111 per cent on June 1, 1933.

²⁰ At the end of the first 5 months of 1933 the Escondido Association had decreased this ratio to 70 per cent.

column 4 of table 7. Most organizations prefer not to have this ratio exceed 25 to 30 per cent. In the writer's opinion, it would be desirable for the Escondido Association to attempt to decrease its notes and accounts receivable by at least \$5,000 during the year 1933. It is realized that this presents numerous difficulties, particularly when prevailing egg prices are low. It is also realized that such an attempt may result in some decrease in the volume of business. Nevertheless, from the standpoint of the financial position of the Association, such a procedure is desirable. It may be possible to accomplish this objective, if by no other means, through cooperation with the administrators of the recent federal agricultural credit legislation.²¹

PRACTICABILITY AND DESIRABILITY OF THE ESCONDIDO ASSOCIATION MERGING WITH ANOTHER COOPERATIVE

The data presented in this study may be of aid in appraising the practicability and desirability of the Escondido Association merging with either the Poultrymen's Cooperative Association with headquarters at Los Angeles, or with the San Diego Cooperative Poultry Association at Los Angeles. Other factors may also be considered, such as the human relationships involved. These are qualitative rather than quantitative, and hence more difficult of appraisal. Frequently, however, they dominate a particular situation and must, therefore, not be overlooked. In this appraisal most attention will be given to the economic aspects.

The data in the sections of this study on operations and comparative feed prices show that if the Escondido Association were to merge with another cooperative, it would be advantageous to conduct operations at the Escondido plant much the same as they are being conducted in 1933. That is, it would be advantageous to grind and mix the mixed feeds used in the Escondido area at Escondido. The primary factor which makes such action advantageous is the freight rate structure which permits the shipment of many raw materials from point of origin to Escondido for the same rate that they can be shipped to other southern California points.

If the Escondido Association were to merge with another cooperative, it would then become a branch plant. Such action would likely result in a direct saving of approximately \$327.50 annually. That is, the expense of an audit amounting to \$137.50, the expense of directors' meetings of \$140.00, and the legal fees of about \$50.00 annually might be eliminated. However, these direct savings would probably be offset by the expenses of supervision and other expenses which would be incurred by operating the Escondido Association as a branch of another organization.

The data on the financial status of the Escondido Association showed that the extension of credit and the collection of notes and accounts receivable was one of the principal problems of the organization. The question arises: Would this problem be less difficult if the Escondido Association were a branch of another organization rather than a separate entity? It is generally recognized that a knowledge of local conditions is essential in the extension of credit and in the subsequent handling of notes and accounts receivable. It is usually desirable in cooperative undertakings that the management have the advice of local

²¹For further information on this point, address Mr. W. H. Woolf, Federal Land Bank, Berkeley, California, or Mr. J. G. France, Farm Advisor, San Diego, California.

representatives in determining policies in such matters. However, some hold the view that decisions concerning the extension of credit and the collection of notes and accounts receivable are better handled by persons removed from the immediate territory. It is argued that persons within the area are inclined to allow their sympathies to influence their judgment. On the other hand, producers within an area are dependent upon a source of credit and an organization which assists them in periods of stress is likely to win their good will and retain their business when conditions have improved.

In the writer's judgment, the problem of the extension of credit and the handling of notes and accounts receivable in the Escondido area can be handled more advantageously with the Escondido Association operating as a separate entity, rather than as a branch of another cooperative, primarily because of the knowledge which the directors and management have of local conditions.

Aside from the foregoing view of the credit problem, the practical problem of the disposal of outstanding notes and accounts receivable would arise if the Escondido Association were to become a branch of another cooperative. If the merging with another organization were generally agreeable to all concerned, it is doubtful if the cooperative which absorbed the Escondido Association would be willing to accept the notes and accounts receivable at their book value. In this event, the member owners of the Escondido Association might lose a considerable portion of their equity in the Escondido Association. Other assets of the Escondido Association would probably be taken over by the absorbing cooperative and notes and accounts receivable segregated for collection. It is probable that such action would result in less collections than if the Escondido Association continued to operate as a separate organization.

If all other factors indicated that it were distinctly advantageous for the Escondido Association to be operated as a branch of another organization, this problem of the disposal of the notes and accounts receivable would be likely to stand in the way of effecting it.

The data in the section on comparative egg prices indicate that the present movement of some of the eggs from the Escondido area to Los Angeles through the Poultrymen's Cooperative Association is to the advantage of the poultrymen who market in this way, and also to the advantage of poultrymen in the county as a whole. It is doubtful if any advantages might be gained in the performance of egg marketing functions for the Escondido area with the Escondido Association operating as a branch of the former organization instead of as a separate organization. The present arrangement whereby members of the Escondido Association who market their eggs in Los Angeles are also members of the Poultrymen's Cooperative Association appears satisfactory for all parties concerned. In this respect the relations of the Escondido Association and its members with the Poultrymen's Cooperative Association is similar to that which exists between the Hayward Poultry Producers at Hayward and its members with the Poultry Producers of Central California, with headquarters at San Francisco. The Hayward Association handles feeds and supplies and a number of its members are members of the Poultry Producers of Central California, through whom they market their eggs.

Aside from the economic aspects of the question of merging the activities of the Escondido Association with another cooperative or continuing to operate as a separate entity with certain business relationships with other cooperatives, it may be pointed out that there are certain advantages as far as human relationships

are concerned for the Escondido Association to operate as a separate entity. More of the members have an opportunity to assist in directing the affairs of the Escondido plant if it is a separate organization rather than a branch of a larger organization. In addition, members have greater opportunity to see and discuss problems with those who make decisions for the organization.

All factors considered, it is the writer's judgment that the most practicable procedure for the poultrymen in the Escondido area who are members of the Escondido Association and purchase their feeds through it is to attempt to strengthen their own organization rather than to merge their activities with another cooperative organization.

The steps which may be taken to strengthen the position of the Escondido Association are:

(1) Grind and mix a still larger proportion of the mixed feeds which it handles, rather than handle the feeds mixed and ground by other agencies.

(2) Attempt to increase slightly the gross operating margin.

(3) Purchase more of the raw materials used through or in cooperation with other organizations handling feeds cooperatively.

(4) Discontinue the rotation of capital until approximately \$10,000 have been added to capital.

(5) Increase reserves until the ratio of net worth to capital is approximately 125 per cent.

(6) Attempt to decrease the item of notes and accounts receivable by \$5,000.

